

cap report
very tight

berncam

international industries limited

annual report 1970



Kay Silver
INC.

CREATORS OF

Kambern

ORIGINALS



Berncam International Industries Limited, through its wholly-owned subsidiaries, Highland Knitting Mills Inc., and Kay Silver Inc., manufactures a wide range of wearing apparel for men and women.

Highland Knitting Mills is a leading manufacturer of men's knitwear. Classic designs and trend-setting styles in men's sweaters bearing the "Kambern" label are found in better men's wear stores and department stores throughout Canada.

Kay Silver is a designer and manufacturer of blouses, dresses, lounge and sportswear under such well known tradenames as "Kay Silver", "Marissa", "Stunjee", and "Le Chat". These high fashion quality styles are available across Canada in boutiques, ladies wear shops and large department stores.

These two subsidiaries have served Canadian consumers for more than a quarter century with high quality fashions of superior design and craftsmanship.

bernoam international industries limited

Board of Directors

Nathan Bernstein
Arthur D. Dalfen
Richard I. Kaufman
Cecil Kott

Officers

Cecil Kott, President
Nathan Bernstein, Vice President
Arthur D. Dalfen, Vice President
Richard I. Kaufman, C.A.,
Secretary-Treasurer

Transfer Agent and Registrar

Guaranty Trust Company of Canada
Montreal, Quebec

Auditors

Fuller Jenks Landau
Montreal, Quebec

Bankers

The Toronto Dominion Bank
Montreal, Quebec

Listed

Canadian Stock Exchange

Subsidiary Companies

Highland Knitting Mills Inc.,
8280 St. Lawrence Boulevard,
Montreal, Quebec

Kay Silver Inc.,
7101 Park Avenue,
Montreal, Quebec

Head Office

7101 Park Avenue,
Montreal, Quebec

Financial highlights

for the year ended December 31, 1970

	<u>1970</u>	<u>1969</u>
Net sales	\$2,606,388	\$2,387,328
Earnings before taxes	\$ 518,356	\$ 422,569
Net earnings	\$ 243,356	\$ 196,569
Earnings per share	\$ 0.40	\$ 0.32
Common shares outstanding at year end	612,510	612,505

pro forma financial highlights

after giving effect to the acquisition of
Kay Silver Inc. for 250,000 common shares at closing,
and the issuance for cash of 250,000 treasury shares

	<u>Pro forma December 31, 1970</u>	<u>Actual December 31, 1970</u>
Cash	\$1,127,052	\$ 779,104
Working capital	\$1,928,703	\$1,119,938
Working capital ratio	3.8 to 1	3.6 to 1
Net worth (shareholders' equity)	\$2,096,845	\$1,232,302
Common shares outstanding	1,112,510	612,510
Book value per share	\$ 1.88	\$ 2.01

report to shareholders

We are pleased to present the first Annual Report of Berncam International Industries Limited and to report on the financial results and operations of its subsidiary, Highland Knitting Mills Inc. Subsequent to the year end, the Company acquired Kay Silver Inc. Therefore, the consolidated financial statements for 1970 do not include the financial results of Kay Silver. However, a pro forma consolidated balance sheet is included giving effect to the acquisition of Kay Silver and the issuance and sale of 250,000 treasury shares for cash.

Incorporation and Subsequent Events

Berncam International Industries Limited was incorporated under the laws of Canada on October 7, 1970. The Company subsequently acquired all of the assets of Kambern Diversified Industries Limited including its wholly-owned subsidiary and operating company, Highland Knitting Mills Inc., of Montreal.

Early in 1971, Berncam issued 250,000 treasury shares to the public for a net cash consideration of \$513,000. In addition, the Company acquired all of the outstanding shares of Kay Silver Inc. for 250,000 shares issued on closing, and 150,000 shares reserved for issuance contingent upon Kay Silver's earnings performance over the next five years.

In May, 1971, the Company signed a letter of intent to acquire all of the outstanding shares of Margo Dress (Canada) Ltd., a Montreal-based manufacturer of women's high-fashion dresses. The acquisition is subject to final approval of your board of directors, all regulatory

bodies and the execution of final documents. It is expected that this acquisition will be finalized by June 30, 1971.

Financial

Net sales for the year were \$2,606,388, compared to sales of \$2,387,328 in 1969. These results are indicative of the continuing increase in consumer acceptance enjoyed by the men's knitwear products of Highland Knitting Mills Inc.

In 1970 the Company achieved net earnings of \$243,356 or 40 cents per share based on 612,510 shares outstanding at December 31, 1970. This compares to after-tax earnings of \$196,569 or 32 cents per share on 612,505 shares outstanding in 1969. The improvement in net profit in the year highlighted by increasing costs in the general economy has been the result of efforts to improve productivity and increase efficiency in the operations of Highland Knitting Mills.

The pro forma consolidated balance sheet reflects the financial position of the Company after the acquisition of Kay Silver Inc. and the issuance of 250,000 treasury shares to the public. Total pro forma assets amount to \$2,775,600 of which \$2,607,458 are current. Pro forma working capital increased by \$808,765 to \$1,928,703. Shareholders' equity increased to \$2,096,845 on 1,112,510 common shares having a book value of \$1.88 per share.

In recent months, the Company has acquired a well established and profitable manufacturing business,

improved its working capital position, increased shareholders' equity through the sale of shares and augmented its retained earnings with those of Kay Silver Inc. From this strengthened financial base we are confident that the Company is geared for aggressive growth both through operational expansion and acquisition.

Highland Knitting Mills Inc.

Highland Knitting Mills Inc., a manufacturer of a wide range of men's sweaters, is managed by Nathan Bernstein who has been active in the business since 1946. Over the years, the Company has achieved and maintained a position of leadership in the industry. Its customers, throughout Canada, include major department and chain stores as well as independent men's wear stores and boutiques.

Primarily through the knowledge and efforts of Mr. Bernstein, Highland Knitting Mills' "Kambern" label has become well known as a leader in quality and style in the medium-to-better price ranges.

Highland Knitting Mills operates from a 21,000 square foot plant and office in midtown Montreal. High productivity is maintained by its approximately 130 employees through an extensive training program for knitters, cutters, machine operators, inspectors, packers and shippers. Knitting equipment is semi-automated to produce a wide variety of patterns, colour combinations and styling effects. Additional equipment expenditures are contemplated for the near future.

Expansion of the product line is under continual examination and currently includes such considerations as acquiring Canadian

marketing rights for highly desirable European-made knitwear, and diversifying into the ladies wear market with unisex sweaters, hot pants, and other knitted items. The close association now possible between Highland Knitting Mills and Kay Silver is expected to open new avenues of product development and market penetration for both companies.

Kay Silver Inc.

Founded in 1944 by Cecil Kott, Kay Silver Inc. is one of the foremost manufacturers in Canada of blouses, dresses and accessory items for sale in better department stores and specialty shops. In its twenty-seven year history, the company has enjoyed continuous growth in sales and earnings.

Its leadership in the fashion field is maintained by exercising great care in the selection of fabrics and a unique flair in design and styling. The manufacturing operation of Kay Silver is based on high productivity and strict quality control. Kay Silver products are noted for their superior workmanship and attention to detail.

In June, 1971, Kay Silver moved its plant to a new industrial building in Montreal where it occupies 65,000 square feet of space on one floor. These new facilities are more than double the size of its former location. It is expected that when the new premises are ready for full operation, the number of employees of the company will be more than double the present 200. This new plant will be one of the most highly automated manufacturing facilities in Canada in this industry.

The company is preparing to introduce new items to its product

line and has recently completed the design of its first complete range of winter sportswear for women.

Management

Berncam International Industries Limited was founded on the philosophy that a number of companies operating independently in the wearing apparel industry have a better opportunity for growth and development by the pooling of interests, resources, knowledge and know-how under a combined management team. The corporate and financial advantages to each subsidiary add a significant dimension in management techniques, financial stability and opportunities to increase both sales and profitability at an accelerated rate.

Cecil Kott, newly-appointed President of the Company, has spent many years in the garment industry and is well respected for his knowledge of all phases of the textile business. For the past two years, he has also served as President of the Montreal Dress and Sportswear Manufacturers Guild. His personal leadership of Kay Silver has been responsible for its development and growth to the position of prominence it now holds.

Nathan Bernstein's flair and knowledge in the men's knitwear field have guided Highland Knitting Mills to a position of leadership in the industry. He travels extensively to scout the markets of the world for trend-setting styles and new ideas in fashion. Through his continuing management of Highland Knitting Mills and his executive responsibilities at board level, Berncam will

benefit greatly from Mr. Bernstein's breadth of experience.

Outlook

In addition to the proposed expansion in the operations of Highland Knitting Mills and Kay Silver, the Company is negotiating with other companies as possible acquisitions in related fields. It is management's intention to broaden the base of operations of Berncam International Industries Limited to include a variety of textile-based companies, each engaged in separate operations while at the same time drawing from centralized management and financial resources.

We suggest that shareholders and other interested persons acquaint themselves with the registered trademarks of our apparel items and look for them in better stores across Canada.

The Directors of the Company look forward with confidence to reporting further growth and progress as our present plans become realities. We gratefully acknowledge the many contributions of employees and associates to the continuing success of the Company.

On behalf of the
Board of Directors,

June 4, 1971

Cecil Kott
President

consolidated statement of earnings (note 1)

for the year ended December 31, 1970
(With comparative figures for the year 1969)

	1970	1969
Net sales	<u>\$2,606,388</u> ✓	<u>\$2,387,328</u> ✓
Cost of goods manufactured, operating expenses, depreciation and amortization	<u>2,088,032</u>	<u>1,964,759</u>
Earnings before income taxes	518,356	422,569
Provision for income taxes	<u>275,000</u>	<u>226,000</u>
Net earnings	<u><u>243,356</u></u> ✓	<u><u>196,569</u></u> ✓
Net earnings per share (612,510 shares in 1970 and 612,505 shares in 1969)	<u><u>\$0.40</u></u> ✓	<u><u>\$0.32</u></u> ✓

consolidated statement of retained earnings (note 1)

for the year ended December 31, 1970
(with comparative figures for the year 1969)

Retained earnings — beginning of year	\$ 548,936	\$ 352,367
Net earnings	<u>243,356</u>	<u>196,569</u>
Retained earnings — end of year	<u><u>\$ 792,292</u></u>	<u><u>\$ 548,936</u></u>

(See accompanying notes to the financial statements)

consolidated balance sheet as at december 31, 1970

(with comparative figures as at December 31, 1969)

assets

Current:

	1970	1969
Cash	\$ 779,104	\$ 421,566
Accounts receivable	610,357	621,626
Inventories (Note 2)	152,838	134,683
Special refundable tax	—	4,726
Prepaid expenses and deposits	8,938	7,466
Total current assets	1,551,237	1,190,067
Investment and advances (Note 3)	30,691	—

Fixed: (Note 4)

Machinery and equipment	359,986	356,870
Furniture and fixtures	18,055	16,584
Leasehold improvements	33,618	33,618
Rolling stock	20,693	20,693
At cost	432,352	427,765
Less: Accumulated depreciation and amortization	367,465	351,240
	64,887	76,525

Other:

Unamortized organization expenses and costs of public financing	16,786	18,883
	\$1,663,601	\$1,285,475

Approved on behalf of the Board:
NATHAN BERNSTEIN, Director
RICHARD I. KAUFMAN, Director

auditors

To the Shareholders of
BERNCAM INTERNATIONAL INDUSTRIES LIMITED

We have examined the consolidated balance sheet of Berncam International Industries Limited and its wholly-owned subsidiaries as at December 31, 1970 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

berncam international industries limited and subsidiaries (note 1)

(Incorporated under the laws of Canada)

liabilities

Current:

Accounts payable and accrued charges

\$ 275,895

\$ 169,623

Income taxes payable

155,404

126,911

Total current liabilities

431,299

296,534

shareholders' equity

Capital stock —

Common shares without nominal or par value

Authorized 2,500,000 shares

Issued and fully paid 612,510 shares
(1969 — 612,505 shares) (Note 5)

440,010

440,005

Retained earnings

792,292

548,936

Total shareholders' equity

1,232,302

988,941

\$1,663,601

\$1,285,475

report

(See accompanying notes to the financial statements)

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year (Note 1).

Montreal, Quebec
February 6, 1971.

FULLER JENKS LANDAU
Chartered Accountants

consolidated statement of source and use of funds (note 1)

for the year ended December 31, 1970
(With comparative figures for the year 1969)

	1970	1969
Source of funds:		
Net earnings	\$ 243,356	\$ 196,569
Charges to income not resulting in an outlay of funds:		
Depreciation and amortization	16,225	17,153
Amortization of organization expenses and costs of public financing	4,197	—
Proceeds from disposal of fixed assets	—	702
Capital stock issued for cash	5	—
	<u>263,783</u>	<u>214,424</u>
Use of funds:		
Organization expenses	2,100	—
Additions to fixed assets	4,587	10,938
Investment and advances	30,691	—
	<u>37,378</u>	<u>10,938</u>
Increase in working capital	226,405	203,486
Working capital — beginning of year	893,533	690,047
Working capital — end of year	<u>\$1,119,938</u>	<u>\$ 893,533</u>

(See accompanying notes to the financial statements)

notes to consolidated financial statements

for the year ended December 31, 1970

berncam international
industries limited

1. History and principles of consolidation:

Berncam International Industries Limited was incorporated under the laws of Canada by letters patent dated October 7, 1970. Pursuant to an agreement dated October 14, 1970, the Company acquired all the assets, property and undertaking of Kambern Diversified Industries Limited. In consideration thereof, the Company assumed all the liabilities and issued 612,505 common shares. These share were subsequently distributed by Kambern amongst their shareholders in exchange for Kambern shares. Kambern will make application to surrender its charter and cease to exist.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Highland Knitting Mills Inc. and Berkam Investments Limited, which company, is a wholly-owned subsidiary of Highland Knitting Mills Inc. The combination with Highland Knitting Mills Inc. has been reflected in the accompanying financial statements on a pooling of interests basis. All significant inter-company items have been eliminated.

For comparative purposes, the 1969 consolidated financial statements of Kambern Diversified Industries Limited have been used and the accounting principles applied in 1970 are consistent with 1969.

2. Inventories:

Inventories are valued at the lower of cost or net realizable value and consist of the following:

	1970	1969
Raw materials	\$116,602	\$ 80,878
Work in process	15,337	8,563
Finished goods	20,899	45,242
	<u>\$152,838</u>	<u>\$134,683</u>

3. Investment and advances:

Investment and advances consist of:

150 common shares of no par value in Transmarin Finanz A.G. of Zurich, Switzerland — at cost	\$ 30,000
Advances to Trans Canada Distilleries Ltd.	691
	<u>\$ 30,691</u>

4. Fixed assets:

Fixed assets are valued at cost. The Company has recorded in its accounts depreciation calculated on maximum capital cost allowances under the income tax regulations. All benefits derived from special depreciation provisions instituted periodically under the income tax regulations have been fully provided for. As a result of this practice no deferred income tax liability exists as at December 31, 1970.

5. Capital stock:

612,510 no par value common shares were issued during the year as follows:

5 shares upon incorporation for \$1 each	\$ 5
612,505 shares in consideration of all the assets, property and undertaking of Kambern Diversified Industries Limited	440,005
	<u>\$440,010</u>

6. Stock option plan:

Options to acquire 37,500 common shares at a price of \$3.00 were reserved for key employees of the company. These options are exercisable in varying amounts to April 30, 1973. As at December 31, 1970, none of the above options had been exercised.

7. Commitments:

Annual rental under a lease expiring April 30, 1972 amounts to approximately \$24,417.

8. Subsequent events:

The company has entered into two agreements, which have not been closed as of February 6, 1971.

(i) The acquisition of all the outstanding common shares of Kay Silver Inc., a company engaged in the manufacture of women's fashionwear for a consideration of 400,000 common shares; 250,000 shares to be issued at the date of closing and 150,000 shares contingent upon future earnings.

(ii) The issue and sale of 250,000 common shares of the company to the public for the price of \$2.10 per share totalling \$525,000, less expenses of \$12,000 to net \$513,000.

pro forma consolidated balance sheet as at december 31, 1970

(With actual figures as at December 31, 1970)

assets

	<u>Pro Forma</u>	<u>Actual</u>
Current:		
Cash	\$1,127,052	\$ 779,104
Accounts receivable	1,028,668	610,357
Inventories (Note 3)	431,924	152,838
Prepaid expenses and deposits	19,814	8,938
Total current assets	<u>2,607,458</u>	<u>1,551,237</u>
Investment and advances (Note 4)	31,241	30,691
Fixed (Note 5)	<u>108,115</u>	<u>64,887</u>
Other:		
Unamortized organization expenses and costs of public financing	28,786	16,786
	<u>\$2,775,600</u>	<u>\$1,663,601</u>

Approved on behalf of the Board:

CECIL KOTT, Director
RICHARD I. KAUFMAN, Director

auditors'

To the Directors of
BERNCAM INTERNATIONAL INDUSTRIES LIMITED

We have examined the consolidated and pro forma consolidated balance sheet of Berncam International Industries Limited and its wholly-owned subsidiaries as at December 31, 1970. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For the pro forma balance sheet, we have relied on the report of other auditors who have examined the balance sheet of the subsidiary, Kay Silver Inc.

Montreal, Quebec,
February 6, 1971

(March 26, 1971 as to Note 2 of
Notes to Financial Statements).

berncam international industries limited and subsidiaries

(Incorporated under the laws of Canada)

liabilities

Current:

	<u>Pro Forma</u>	<u>Actual</u>
Accounts payable and accrued liabilities	\$ 519,265	\$ 275,895
Income taxes payable	159,490	155,404
Total current liabilities	<u>678,755</u>	<u>431,299</u>

shareholders' equity

Capital stock —

Common shares without nominal or par value
Authorized 2,500,000 shares
Issued and fully paid (Note 6)

1,112,510 common shares of no par value	975,010	—
612,510 common shares of no par value	—	440,010
Retained earnings	1,121,835	792,292
Total shareholders' equity	<u>2,096,845</u>	<u>1,232,302</u>
	<u>\$2,775,600</u>	<u>\$1,663,601</u>

report

(See accompanying notes to the balance sheets)

In our opinion, based on our examination and the report of the other auditors referred to above,

(a) the consolidated balance sheet presents fairly the financial position of the companies as at December 31, 1970.

(b) The pro forma consolidated balance sheet presents fairly the financial position of the companies after giving effect to the transactions as set out in Note 2,

all in accordance with generally accepted accounting principles applied on a consistent basis.

FULLER JENKS LANDAU
Chartered Accountants

notes to pro forma consolidated balance sheet

1. History and principles of consolidation:

Berncam International Industries Limited was incorporated under the laws of Canada by letters patent dated October 7, 1970. Pursuant to an agreement dated October 14, 1970, the Company acquired all the assets, property and undertaking of Kambern Diversified Industries Limited. In consideration thereof, the Company assumed all the liabilities and issued 612,505 common shares. These shares were subsequently distributed by Kambern amongst their shareholders in exchange for Kambern shares. Kambern will make application to surrender its charter and cease to exist.

The consolidated balance sheet includes the accounts of the Company and its wholly-owned subsidiaries Highland Knitting Mills Inc. and Berkam Investments Limited, which company, is a wholly-owned subsidiary of Highland Knitting Mills Inc. The combination with Highland Knitting Mills Inc. has been reflected in the accompanying balance sheet on a pooling of interests basis. All significant inter-company items have been eliminated.

2. Pro forma consolidated balance sheet:

The pro forma consolidated balance sheet gives effect to the following transactions as if they occurred on December 31, 1970.

a. The acquisition on a pooling of interests basis by the Company, of all the outstanding common shares of Kay Silver Inc. for a consideration of 400,000 common shares; 250,000 shares to be issued at the date of closing and 150,000 shares contingent upon future earnings.

b. The issue and sale of 250,000 common shares of the Company to the public for the price of \$2.10

per share totalling \$525,000 less expenses of \$12,000 and the increase in cash of \$513,000.

c. The repayment by Kay Silver Inc. of its bank indebtedness of \$165,177.

3. Inventories:

Inventories are valued at the lower of cost or net realizable value and consist of the following:

	Pro Forma	Actual
Raw materials	\$284,336	\$116,602
Work in process	56,118	15,337
Finished goods	91,470	20,899
	<u>\$431,924</u>	<u>\$152,838</u>

4. Investment and advances:

Investment and advances consist of:

	Pro Forma	Actual
150 common shares of no par value in Transmarin Finanz A.G. of Zurich, Switzerland — at cost	\$30,000	\$30,000
Advances to Trans Canada Distilleries Ltd.	691	691
Other marketable securities — at cost	550	—
	<u>\$31,241</u>	<u>\$30,691</u>

5. Fixed assets:

Fixed assets are valued at cost and consist of the following:

	Pro Forma	Actual
Machinery and equipment	\$566,716	\$378,041
Leasehold improvements	33,618	33,618
Rolling stock	35,204	20,693
At cost	635,538	432,352
Accumulated depreciation and amortization	527,423	367,465
	<u>\$108,115</u>	<u>\$ 64,887</u>

The Company has recorded in its accounts depreciation calculated on maximum capital cost allowances under the income tax regulations. All benefits derived from special depreciation provisions instituted periodically under the income tax regulations have been fully provided for. As a result of this practice no deferred income tax liability exists as at December 31, 1970.

6. Capital stock:

	Pro Forma	Actual
5 shares issued upon incorporation for \$1 each	\$ 5	\$ 5
612,505 shares issued in consideration of all the assets, property and undertaking of Kambern Diversified Industries Limited	440,005	440,005
250,000 shares to be issued for \$2.10 per share	525,000	—
250,000 shares to be issued in consideration of 100 common shares of \$100 par value in Kay Silver Inc. As at December 31, 1970, the 100 common shares of Kay Silver Inc. had a book value of \$339,543	10,000	—
	<u>\$975,010</u>	<u>\$440,010</u>

7. Stock option plan:

Options to acquire 37,500 common shares at a price of \$3.00 were reserved for key employees of the Company. These options are exercisable in varying amounts to April 30, 1973. As at December 31, 1970, none of the above options had been exercised.



